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GAIN Report

Global Agricultural Information Network

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Ukraine

Retail Foods

Annual Report

Approved By:

Randall Hager

Prepared By:

Oleksandr Tarassevych,
Agricultural Specialist

Report Highlights:

During 2012, the food retail sector grew faster than other sectors of Ukrainian economy following the country's 15 percent growth in consumer spending. Sales of imported consumer oriented agricultural products are expected to grow by 30 percent due to strong domestic currency. A general economic slowdown observed toward 2013 is likely to have a dampening effect on food sales in 2013, although modest growth is expected. Retail industry will continue to invest in big hypermarket type formats, although smaller formats oriented on not-so-wealthy consumers will remain popular.

Post:

Kiev

SECTION I. MARKET SUMMARY

Ukrainian retail trade in food products developed rapidly over the past seven years. This growth had been driven by a strong economy and by an increase in consumers' incomes. Some changes in the expansion pattern were observed in 2007 to early 2008 with more emphasis on small retail formats, shopping malls development and expansion of chains into the regions. The October 2008 financial crisis ended these rapid expansion trends and opened a whole new period in Ukrainian retail development. In 2010/11, the market stabilized and began to recover.

In 2012 some positive trends were observed in Ukrainian retail chains. It was the first year after the 2008 crisis when retail chains renewed careful growth. Owners were opening new stores and invested into rebranding of existing ones. Chains adjusted their expansion plans to changing consumer behavior and relied heavily on smaller formats to recapture market share. Small mini markets and "shop near home" became predominate formats. Companies that emphasized low prices and relied on smaller stores were able to strengthen their positions in the country.

Even big companies that used to operate only large stores chose to scale down and concentrate on "shop near home" type outlets. Many preferred to maintain the chain's brand to keep loyal consumers, but in the new format. For example, the "Retail Group" company that operates traditional big "VK" supermarket chain has opened five small stores under "VK Express" name. The company plans to add 30 more outlets in 2013. Spar chain opened a few "Spar Express" stores in Kyiv, while Western Ukraine based VolWest Group (operates "Our Land" conventional supermarkets) opened "Our Land Express." "Ukrainian Retail" expanded its "Brusnychka" mini market chain by 16 stores (mostly in Eastern Ukraine).

Retailers believe that smaller stores allow for retail industry growth in the turbulent post crisis market environment. Small stores minimize the need for additional investments and allow retailers to cover areas where conventional supermarket construction is unjustified or excessively risky.

Most of the market growth in 2012 can be attributed to chain's own resources. Due to strict monetary policy of Ukraine's financial regulator, external financing remained unavailable or overly expensive. Chains were able to attract foreign currency financing at a 10-12 percent interest rate. Local currency financing costs ranged from 15 to 27 percent in last two years. In 2012 most chains re-evaluated their business models closing unprofitable stores and opening new ones in attractive locations. Around one-third of new supermarkets opened during the last years were remodeled/rebranded stores.

In 2012 retailers concentrated on improved business efficiency. Many of them spent time in an attempt to maximize revenue per square meter of the store through changes in the assortment of products. Nowadays consumers tend to save more money and are much less susceptible to non-planned spontaneous purchases – behavior more common during the "before crisis" period. Slow economy and possible worsening of the economic situation in the future make consumers pay more attention to price of products that they buy on permanent basis. Low prices for staple food helped to maintain consumer's loyalty in difficult time.

Some positive impact on consumers' disposable income was provided through the Euro-2012

soccer championship and increased social spending before Parliamentary elections. Although significant, this boost has proven to be short lived and will not have any impact in 2013.

The GOU and international organizations agree on a modest 0-1 percent GDP growth forecast in the current year. This forecast suggests some retail growth slowdown in 2013 as retailers are the first to feel economic problems.

Suppliers of food products to Ukrainian chains will continue to face payment problems limiting sales and assortment. In 2012 tight financial policy and stable local currency provided importers some competitive advantage over domestic producers suffering from expensive financing. This advantage may not be in place in 2013.

Developments Prior the Crisis Period

In 2007 and 2008 the Ukrainian food retail sector quickly grew with increases in turnover of trade around 29-27 percent. The share of unorganized trade in open-air markets decreased from 29 percent to 22 percent over those two years. The share of chains rapidly grew from 26 percent to 33 percent for the same time period. Retailers' expectations were that the market would continue to grow at 20-25 percent until 2011-2012 when some saturation point was foreseen. After capturing the big cities with population over one million retailers concentrated on regional expansion. Growth in big urban centers remained attractive, but expansion costs were too high. An overheated real-estate market, problems with building permits, distribution of land plots, and an unclear business environment made development of supermarkets problematic.

Many multinational chains considered the environment in Ukraine to be too hostile for market entry. This situation was reflected in A.T. Kearney's Global Retail Development Index (GRDI). In 2005, Ukraine received 87 points (out of 100) and was ranked 4th among countries where international retailers were recommended to do business. The country slipped to 17th place in 2008, but kept this position in the 2009 report. In 2011 and 2012 indexes, Ukraine completely disappeared from the list of 30 most attractive retail markets. The growth remained only in small-scale retail. Many chains concentrated on a smaller format as an adjustment to fewer available locations. Most self-service grocery stores were opened as replacements of old soviet-style stores where clerks served customers from behind the counter.

Regional development brought new challenges for national retail chains. Strong local competitors were reluctant to give up market share without a fight when nation-wide chains entered their ground in 2005-07. All national chains started in the capital Kyiv where market size and consumer incomes were the largest. In the past five year's competition fought for market dominance by fighting for the most advantageous real estate. Chains almost gave up trying to win over customers based on satisfaction of consumer preferences. Despite relatively low saturation of the Kyiv market, high rents and the cost of real estate drove Ukrainian retail business to expand regionally.

Still, the development of retail in Ukraine continued at a fast pace with no clear distinction of supermarket formats. Any self-service store of 200-300 square meters would declare itself a "supermarket" with competition through low price offers. Some self-organization started only in 2008-2009 with international retailers entering the market and growing. Prior to the financial crisis many retailers saw the following formats as being worth attention: convenience stores, shopping malls, hypermarkets, and the gourmet grocery

store niche. Convenience stores succeeded mostly due to low barriers to entry, abundance of locations, and low risks. Trade developments after 2009 suggest that over the crisis period, convenience grocery stores will remain viable in the near future, but longer industry trends suggest hypermarkets and shopping mall formats are likely to succeed.

Regional expansion was not an easy task for Kyiv retailers. Many sale practices successful in Kyiv proved to be inefficient in the regions. Many good locations were already occupied by local competitors unwilling to give up profitable plots cheaply. Many local chains started their own expansion programs by offering to sell their business to foreign chains or to nationwide competitors at the highest price. This development in turn led to real estate price growth in many regional markets contributing to a real estate price bubble. Local consumers happened to be loyal to local retailers and only significant price discounts could persuade them to switch. The product sets in many regions were very different from those in Kyiv with consumers preferring their local brands and local suppliers. Many regional retailers were quite successful and started their expansion into neighboring markets and even in Kyiv. Regional chains like Amstor, ATB and Pakko can be considered nationwide now.

State Regulation of the industry was quite messy. On one hand the Government of Ukraine attempted to support farm incomes, but also acted to limit food product costs to benefit consumers. After significant food price surges in early 2008, these controversial goals resulted in a law that limited trade margins to 15 percent for many food items. The list included bread, wheat flour, dairy products, buckwheat groats, meats and some other staple foods. This law was adopted on May 16, 2008. Trade margins of many Ukrainian discount hypermarkets remained under the 15 percent threshold prescribed by law. On the other hand, convenience stores in city centers would not stay in business if operated at a 15 percent margin. Many of them paid high rent for their space and would have to quit business should the law be enforced. In the end, all Ukrainian retailers found ways to get around the 15 percent strictures of the law.

In 2012 prior to Parliamentary election the Government of Ukraine (GOU) concentrated on populist policies in an attempt to attract votes. Issues with price growth for staple foods were debated in the press, so GOU insisted on maintaining the social products line in the retail. In 2012 the pressure concentrated mostly on bread products.

Mergers, Acquisitions and International Expansion

Since most retailers concentrated on general efficiency increase of their existing business, very few were looking for expansion through mergers and acquisitions (M&As). Most retailers that were exercising risky expansion policy were purchased by bigger competitors in 2009/10.

The biggest event in retail M&A market came from the foreign chains present in the country. On November 30, 2012 French Auchan Group announced the purchase of Real Hypermarkets in Central and Eastern Europe from the German Metro AG. In Ukraine the deal will include two big supermarkets in Kyiv and Odessa.

Cost of Ukrainian supermarkets is unknown, but the total transaction amounts to EUR 1.1 billion. The deal will be closed in 2013 following the approval of antitrust authorities of the countries where Real hypermarkets are positioned.

The deal will allow Auchan to increase their chains in Poland, Romania, Russia and Ukraine by 91 stores, as well as 13 shopping malls in Russia and Romania.

Real's turnover in the four Eastern European countries in 2011 amounted to EUR 2.6 billion (pre-tax). The French company is expected to continue its development in Ukraine as it belongs to one of priority areas along with Western Europe and Asia. Ukrainian retail analysts predict an easy merge process as Real's and Auchan's business models are very similar and target the same audience. Acquired supermarkets are spatially well positioned and are not in direct competition to existing Auchan outlets.

On the worldwide scale Metro AG was looking for a buyer since 2007, after Real chain showed weak operating results. Development of Real in Ukraine was complicated by lack of suitable plots and nontransparent construction process.

Real Networks failed to achieve the growth of financial indicators in 2011, and it is "an occasion for discussion about how we would like to further develop this chain," as noted by Olaf Koch, the President of Metro AG. At the same time, he added, the Real business is good potential for international expansion.

It was reported that Real revenue in 2011 decreased by 2.3 percent to EUR 11.23 billion, EBITDA - by 0.3 percent, to EUR 321 million. However, the EBIT rose by 1.2 percent. On selected markets Real was able to achieve remarkable revenue growth. In Russia 18 outlets generated 19.7 percent growth to EUR 722 million.

In general Ukraine does not provide good grounds for international chains to expand retail businesses. Rather, Ukrainian investment expanded into some less developed foreign markets (Moldova and Georgia). Many Russian retailers viewed Ukraine as a good territory for business development, but none of them met with success. Russian Perekrestok, Piaterochka and Patterson opened their stores in different cities. Another Russian chain the Patterson sold their business to the Ukrainian chain "Eco" back in 2007. Piaterochka also sold their locations in Eastern Ukraine to local competitors at the end of 2007. Perekrestok (X5 Retail Group) was more successful with 11 locations opened by the end of 2012 (nine in Kiev and two in surrounding cities). Remarkably the chain continued slow expansion in 2010-12.

Facing a shortage of potentially profitable locations, heavy competition from local chains, political obstacles at the local authority level (in bids for land plots) and crisis developments in Ukrainian retail, Russian chains started M&A negotiations with some Ukrainian retailers. The price range given by current owners did not satisfy the Russians and no deals were done. Ukrainian retail business intensively attracted bank loans in 2005/08 and prior to financial crisis accumulated significant debt. By mid 2011 a new situation developed when M&As are of no interest neither for chain owners nor for new investors. The evaluated "net worth" of the many chains became negative as amount of loans attracted exceeds these estimated values. Banks see no sense neither in collateral claim nor in sale of the retail business since expected return would not cover the debt.

Ukrainian expansion into neighboring countries was more successful. Two of the biggest Ukrainian retailers entered the Moldova market. Retail Group (Velyka Kyshenia TM) now owns 12 supermarkets (through the purchase of the local chain Green Hills) and Furshet Ltd (La Furshet TM) also owns nine supermarkets under its own brand, all in Moldova. Furshet also declared future expansion plans for 2013 through franchising network in Georgia.

Due to market entry obstacles one international retailer decided to cooperate with one of the local chains. The joint venture of Furshet and Auchan Group (France) was established in March of 2007. The French retailer agreed on portfolio investment into the La Furshet chain. The mass media reported that Auchan Group created a Joint Venture through the purchase of 21 percent share of Furshet chain (for \$112 million) plus 34 percent share of Furshet in any Auchan hypermarket store opened in Ukraine or Moldova. Furshet also agreed to facilitate Auchan Group's search for new locations (one plot was provided in Kiev right after the deal) and lobbying its interest at the regional level. Another Joint Venture company (Auchan Group -50 percent, Furshet management -40 percent, independent investor – 10 percent) will start development of shopping malls in Ukraine. During 2012, Auchan bought back its share from Furshet and its owner. In November 2012 the parties split up and closed both Joint Ventures. Auchan announced that it will continue expansion in Ukraine without support from Furshet. However Auchan retained its ownership in Furshet chain and has options for future share expansion that can be exercised in 2014 and 2021.

Auchan's market entry in 2008 was the first western chain entry after Metro Group AG eight years ago. The four Auchan stores in Kiev and four in other regions so far are quite successful. The chain management claims that products are offered for sale with 15 percent price discount to other chains; suppliers are not charged any marketing cost and paid within two weeks after the product is sold.

Some smaller M&A deals in retail industry have concluded. The financial indicators show that nowadays it is clearly a buyer's market. Expensive mergers and acquisitions of 2005-08 are in the past. Unable to find strategic or portfolio investors some retailers went bankrupt. O'key-Ukraine Chain (owned by the Expert Capital SA, Luxembourg) went bankrupt in early 2009 leaving hundreds of suppliers unpaid. Auchan Group used the opportunity for further expansion. It purchased equipment and one attractive location of a bankrupt retailer. O'key-Ukraine restructured approximately UAH 400 million (\$50 million) of its debts to banks and suppliers with another over UAH 100 million (\$12.5 million) of unpaid debt.

Two other international retailers saw a silver lining in the cloud of Ukraine's crisis. German Metro Group launched Real supermarket chain in Southern Ukraine. Austrian Billa probably is not interested in big-scale M&As, but is quickly developing a local network buying separate locations from local chains.

In 2011 financial hardships made diversified business holding company Rainford based in central Ukraine to rid of their retail division. Rainford Chain was split in two and sold to Omega (Varus Chain) and Fozzy Group (Silpo, Fora, Fozzy Chains). In 2010 Polish Arbis Capital Partners Investment Fund acquired western Ukrainian chain Torgovyi Svit.

In 2009 some supermarket chains defaulted on their obligations to local investors. Karavan Ltd. (Karavan TM) in March of 2009 announced default on coupon and principal of local bonds in circulation for UAH 160 million (\$20 million). Investors allege that the chain attempted to move assets to a different company leaving an empty shell company responsible for the debt.

Troubled Intermarket lost their Barvinok grocery chain in 2008, but was not able to manage excessive debt of over \$21 million on the remaining facilities. According to market analysts the buyer (Eurotech LLC) did not do very well itself, but managed to attract an external loan form Horizon Capital Fund. Many believe that owners were not able to benefit from the deal.

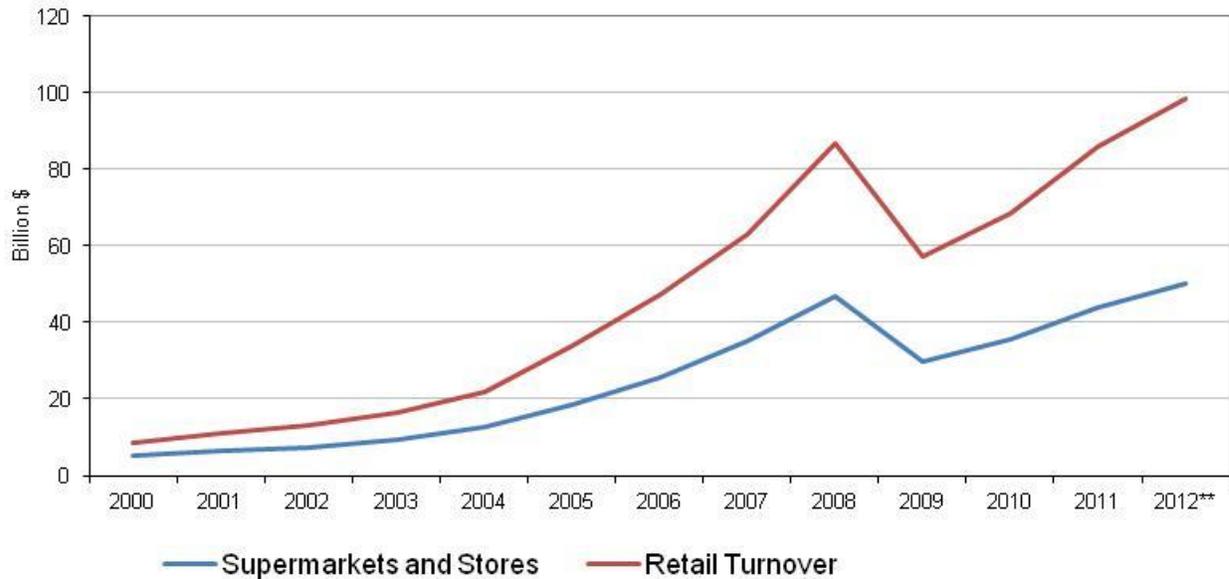
Retail in Crisis and Post-Crisis Periods

Caught in the middle of rapid expansion programs many Ukrainian retailers were not able to service bank loans or to pay their suppliers. Many business growth strategies did not foresee the financial or economic downturn and retailers had no backup plans. Significant problems started in early 2008, when financial resources became scarce and very expensive due to a National Bank of Ukraine policy change. In early 2009 the values of domestic currency (UAH) was about half of what it was in the fall of 2008, so dollar denominated loans became significantly more expensive to repay. The UAH devaluation has brought unwelcome consequences for chains, which expansion was based on external financing. The burden was so significant that many retailers started a strategic investors search offering controlling-share acquisitions. Limited in financial resources small Ukrainian grocery store chains were the first to suffer. Some companies decided to keep control over their business and proposed only minor shares to address current liquidity problems. Many nation-wide chains are looking for financial support of this type.

Despite very pessimistic forecasts announced by industry experts, the majority of retailers managed to restructure their debt to keep their companies afloat. Chains conducted big cost saving programs, reviewed assortment, contracts with suppliers and operational procedures. Major lenders had no other option but to agree on debt restructuring to avoid greater losses. Bankruptcies of major chains would result in significant losses due to multiple loopholes in bankruptcy legislation and unclear judicial enforcement in Ukraine. Besides, banks were interested in keeping chains as clients with good cash flows. In the past many banks attracted syndicated loans from abroad to finance Ukrainian retail. Throughout 2010-11 foreign banks were rather flexible in debt restructuring issues, receiving massive support from their governments. Banks were so cooperative that many chains started withdrawals of their initial shares offers.

Many believe that debt restructuring of 2009-12 only postponed the problems of the industry, rather than resolving them. Problems of major chains may continue in 2013 should the second wave of economic crisis in Ukraine arrive. Some signs of upcoming slowdown became evident in the second quarter of 2012 when industrial production in Ukraine decreased by seven percent. Ukraine is likely to officially fall into stagnation after the 4th quarter results are published in early 2013.

Ukraine's Retail Turnover*



*Both food and non-food items

** Forecast

Crisis developments have led to significant payment delays to food producers and importers. Even before the crisis many suppliers complained about contract terms that allowed for late payments (sometimes 60-90 days). For this reason many producers used distributors or limited their cooperation with Ukrainian retail. In 2008-09 payment delays extended to 150-180 days. This way chains are trying to collect some extra cash to insure timely loan payments. Some importers are seeking justice in Ukraine's court system, some stopped supplies to the chains, but the vast majority gave up and agreed on new discriminatory payment terms.

The crisis decreased the volume of imported food and led to a renaissance of the open-market and traditional grocery trade (per the growing gap between red and blue lines in the graph above) which recovered much faster. Significant contraction of external financing (no new bank loans or IPOs) will significantly restrain industry growth in the next couple of years. Some favorable factors like a drop in rental costs and general food price decreases will not offset the drop in consumer income. Some regional chains will not survive and will be forced to sell their business to bigger market players.

Major Retail Trends

Despite crisis developments some industry experts estimate the retail sector growth in 2011 to be 10-11 percent, taking into account street retail trade and sales of meat, fruits and vegetables in open-air markets (bazaars), which are not included in official statistics.

Table 1. Wholesale Trade Turnover* (Million USD)**

	2005	2006	2007	2008	2009	2010	2011
Total Wholesale Trade	99742	132124	171066	199694	110522	132216	138932

Turnover							
Including							
Food	15440	20453	26036	29487	21604	24445	24406
Nonfood products	84303	111671	145029	170208	88918	107771	114526
Share in Turnover, %	19.5	19.8	19.8	19.0	12.8	12.6	13
Including							
Food	3.0	3.1	3.0	2.8	2.5	2.3	2
Nonfood products	16.5	16.7	16.8	16.2	10.3	10.3	10
Share of domestically produced products, %	13.7	12.9	12.4	12.0	8.2	8.0	8
Including							
Food	15.3	15.0	14.9	14.2	9.6	9.5	9
Nonfood products	13.3	12.6	12.0	11.6	7.9	7.7	8

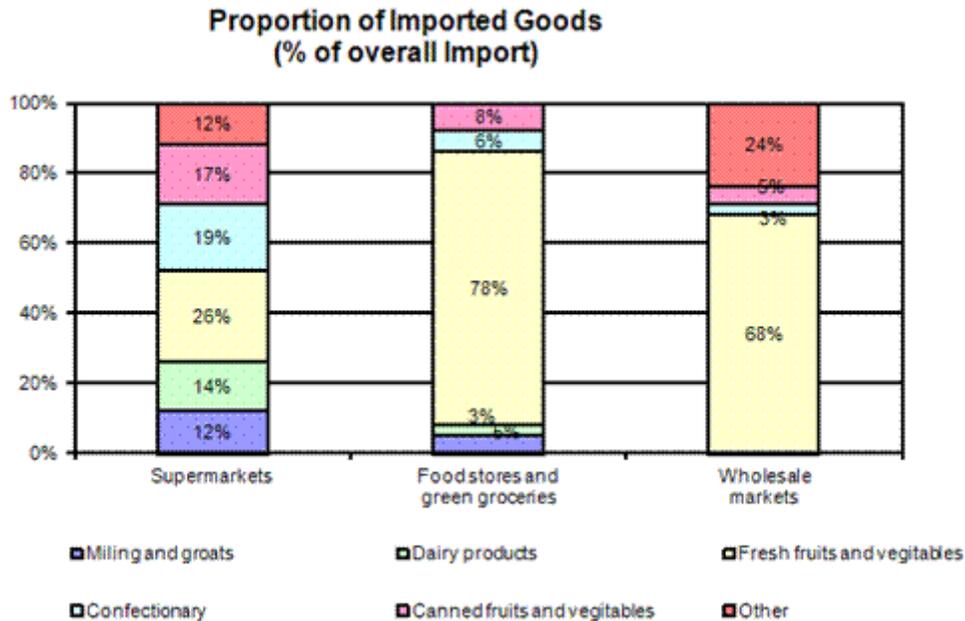
Source: State Statistics Service of Ukraine

* The numbers in the table do not include private trade and open-air market trade.

**Official annual average hryvnya-to-dollar rate was used to convert Ukrainian Hryvnas (UAH) to U.S. dollars.

The share of imported goods in food retail is relatively low and limited by innovative and high value added products, although in organized retail outlets and in urban areas it is substantially higher. These outlets are where a substantial amount of unofficial imported product is sold. Larger cities and densely populated urban areas account for the largest share of retail trade turnover (Kyiv city captures 20 percent of the market, Dnipropetrovsk region – nine percent, Donetsk region – nine percent, Kharkiv region – seven percent, and Odessa region – six percent).

The proportion of imports in wholesale and retail chains varies both by specific commodity group and type of trade enterprise. Ukrainian supermarkets have the widest product mix and the biggest proportion of imports in all categories of goods. According to the industry survey conducted by the World Bank, supermarkets and greengroceries tend to have the largest portions of imported fresh fruits and vegetables on their shelves: 19 percent and 23 percent, respectively. Some 13 percent of confectionery and 12 percent of canned products sold in supermarkets also come from abroad. Except for fruits and vegetables, food stores tend to stock products of mostly domestic origin. The share of imports in all other commodity groups is under four percent.

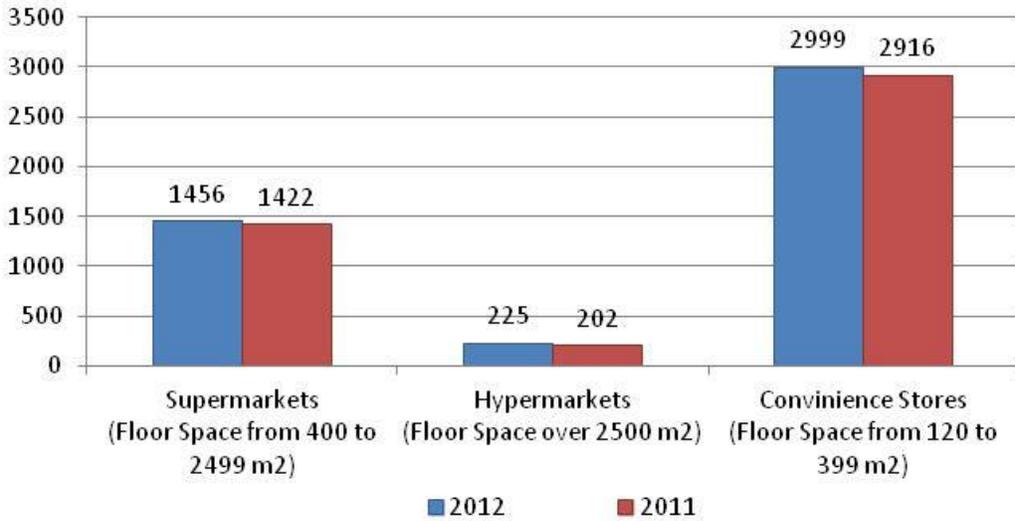


Source: World Bank / IFC Retail Sector Survey

Ukraine’s food product retail sector continues to develop and has a strong growth potential. Despite the growing number of supermarkets, traditional groceries and open-air markets remain the most popular retail outlet. In Kyiv, which captures approximately one-fifth of the food-product market and where one-sixth of the country’s hypermarkets and supermarkets are located, open-air market sales account for between 30-35 percent of prepared food products and 70-80 percent of fresh meat. Open-air outlets account for 22 percent of national retail sales for the entire country although some experts give them a significantly higher share.

Despite current sluggish development of the big retail formats, hyper- and supermarkets are expected to account for 45 percent of retail food sales by 2015; chain convenience stores/discounters will capture 25-35 percent share, open-air markets 25 percent, soviet style stores (groceries, over-the-counter trade stores) 10-15 percent, and other outlets 10 percent.

Ukraine's Retail Trade Structure*

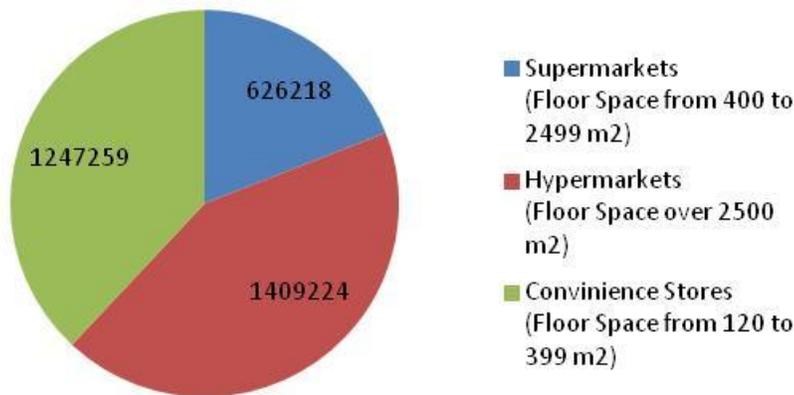


Source: State Statistics Service of Ukraine

*as of January 1st of each year;

Definitions of outlet type may be different from those used in the U.S.

Floor Space, M²



Source: State Statistics Service of Ukraine

Furshet" supermarket chain is a good example to demonstrate the rapid growth of the industry. La Furshet consisted of 15 outlets in 2002 reaching 117 by December 2011 (eight times growth in nine years). The payback period for the average retail outlet is five to seven years in Ukraine (for 2009) compared to 10-15 years in the EU. In 2006, some large chains began CAP software installation to optimize logistics and promotion programs.

Many Ukrainian supermarkets launched discount programs to encourage frequent buyers, low-income consumers or retirees. Many still operate simple discount programs (the

cheapest to introduce and retain) while big nationwide chains switched to western-like bonus programs. Some (La Furshet <http://furshet.ua/> and Megamarket <http://www.megamarket.ua>) offer online services with office or home deliveries. Others offer telephone shopping service.

The largest chains have their own kitchens, mini-bakeries and processing shops. These departments allow chain stores to offer customers a variety of ready-made food products and semi-finished products. This includes various ready-made salads, bakery products, packaged meat cuts, fish and frozen semi-finished products. Supermarkets are also used as anchor stores in shopping centers and malls. In Ukraine shopping centers usually include boutiques, movie theaters, cafes, and restaurants (often connected to the food court). Due to the slow development of shopping centers, many retailers have rented out space to other non-food vendors.

Ukraine is one of the most populated countries in Europe with over 45 million people. A steady increase in personal incomes before 2008 has had a positive impact on the development of the retail sector (an increase of 25 percent in 2008). Per capita income growth rates and the growth in the retail sector coincided. Over the past eight years, only three large European retailers (Billa, Metro and Auchan) entered the Ukrainian market to benefit from the growth. Usually, retailers enter markets in large urban areas, followed by expansion into smaller cities and towns. Although local supermarket chains still outpace foreign companies in terms of the number of outlets, foreign outlets have much better logistics, tested market-entry strategies, excellent personnel-training techniques, well-established connections to suppliers and solid financial support. All these lead to a situation when three western companies are responsible for over 40 percent of Ukraine’s organized large scale retail market.

Advantages and Problems for US Exporters

Advantages	Problems
Population of 45.6 million people; a number of consumers can afford purchasing high-quality food products	Due to economic crisis and erosion of incomes, majority of consumers continue to save money on food or rely on home produced foodstuffs.
Demand for higher quality food products is growing.	Volume of sales of higher quality food products is expected to shrink.
Ukraine’s retail sector is on the rise, which creates a number of opportunities for prospective U.S. exporters.	Frequently changing trade legislation and policies often impact trade. Import tariffs were lowered by WTO accession but threatened with hikes “to protect Balance of Trade.”
Urban life style changes increase demand for semi-finished and ready-to-cook products	Rapid development of local manufacturers of ready-to-cook products creates tough competition for similar imported goods
American-made food and drinks are still new for the majority of the population, but rather popular among the younger generation;	Growing number of domestically produced generic products; lack of knowledge of American products
In general retailers are open to new products in order to attract customers	Strong competition with suppliers of similar products from Russia and European Union

Existence of large importers experienced in importing food products to Ukraine	Difficulties in finding a reliable partner or distributor

SECTION II. ROADMAP FOR MARKET ENTRY

ENTRY STRATEGY

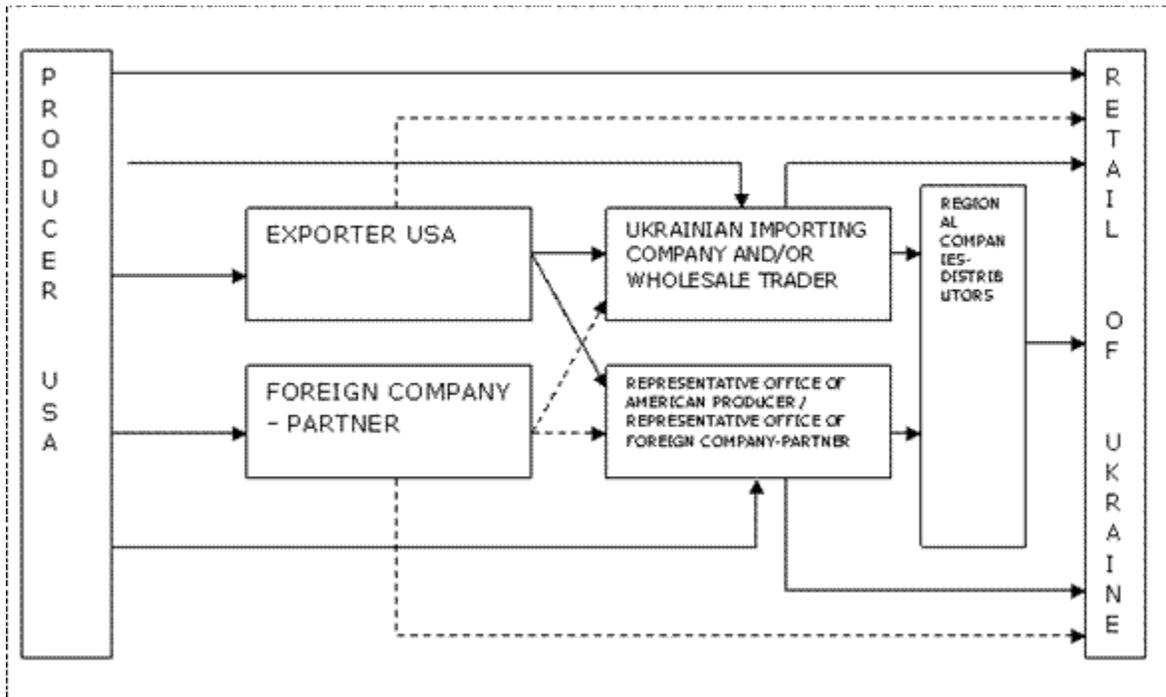
Every company must choose its own market-entry strategy that is dependent on preliminary market research results and the type of promoted product. The strategy is also dependant on the company's financial strength. However, some basic strategy trends exist for products entering the Ukrainian market:

- A prospective entrant is advised to estimate market perspectives of the product with respect to consumer preferences and incomes, local competition and sales channels (marketing research from a specialized consulting firm may be required).
- A visit to a food product fair in Ukraine may be very helpful. These events can provide a market snapshot, as well as identify prospective importers and wholesale vendors. Usually only large companies participate in these fairs.
- Meetings with representatives of state regulatory bodies in order to obtain additional information on import requirements. Companies can consult the Foreign Agricultural Service and Foreign Commercial Service, business consultants, and foreign partner companies already doing business in Ukraine.
- In order to make the first delivery, usually a large local import company is chosen. The company should have a good reputation and experience in customs clearance, and must have storage facilities and a developed distribution network. Make sure the company has experience working with Western suppliers and has experience in arranging regular supplies of food products. Western companies that strive to supply directly, circumventing Ukrainian mediators, often sustain losses due to lack of local market knowledge. A large domestic import company is usually better adjusted to local conditions, with established trade ties and contacts in state structures. Ukraine remains a country where personal contacts play an important role in business.
- Should the exporting company decide to open a representative office, it is should be located in Kyiv, where government authorities are concentrated. Other large cities may also be considered.
- Ukrainian import duty rates for food products are very uneven. Import duties for unprocessed goods or goods in large packages are often zero. Often these commodities require only minimal processing (frying, adding salt, and packaging for retail trade). Duties for packaged and ready for sale products are higher. Many companies test the market with finished products, and then look to process and package locally if the product is a success. This way they manage to reduce custom clearance costs. Many importers package tea, muesli, chocolates, chips, roast nuts and coffee beans in Ukraine. Packaging or production is often conducted in Russia or other Commonwealth of Independent States (CIS) countries. The commodity can be imported from these countries under Free Trade Agreements (FTA). FTAs are in place for 11 CIS countries. However, a potential importer should weigh transportation and certification costs.
- Supermarket entry costs vary greatly in Ukraine. Charges include a company's entrance fee, a shelving fee for each commodity, designated shelf fees, and a fee for positioning a pallet in the sales area. Entrance fees, designated shelves and pallets would amount to approximately \$100-250 each. Some payments are made once, and others are monthly charges. The exporter should be ready to pay the retailer a

percentage of the trade turnover (calculated from sales or per one meter of shelf space). These payments are also made on monthly, quarterly or annual basis. There will be some payments associated with retail chain marketing costs, advertising booklets and in-store promotion actions. The total sum for all services and fees will range from \$1,000 to \$1,500, per commodity per store. All fees are negotiable and depend on a product type.

MARKET STRUCTURE

Food Retail Distribution Channels



Distribution Channels

The vast majority of importers/distributors have offices in Kyiv or in the large Black Sea port of Odessa. Portside offices are often used solely for customs clearance procedures. Following arrival at port, the product is then shipped to Kyiv. From Kyiv the consignment is then distributed to the regions or directly delivered to regional distributors. Some importing companies purchase goods on CIP Kyiv terms and then customs clear in Kyiv. Truck deliveries from Western European ports are much more expensive and rarely practiced. Typically large importers supply a number of commodities to Ukraine. Some companies have exclusive contracts for distribution of food products in Ukraine; however there are cases of several distributors having the right to distribute a single product. Often Ukrainian representative offices finalize agreements to be the exclusive supplier of goods to certain regional distributors. Retailers can cancel a direct supply contract with the representative office when it is unprofitable for a regional distributor to supply the retailer. There are

several companies in Ukraine that pretend to be national distributors capable of regular deliveries of goods to retail trade companies all over Ukraine, however, these companies don't have such an efficient or far reaching distribution system.

Types of Retailers

As reported by the State Statistics Service of Ukraine, the number of retail trade outlets exceeded 48,000 by 2012. Over the past few years, the number of retailers was on the decline (three to five percent annually), while the average floor space increased 4-7 percent annually. Many small food shops continue to go out of business.

Due to the quickly growing number of super- and hypermarkets in 2001-2009, experts estimate their market share at 43 percent, and it will continue to grow in the future. Traditional retailers in big cities are losing their clientele due to new and improved services that are provided by big retailers. Open-air markets and kiosks cannot compete due to low quality products (this is a major channel for uncertified and counterfeit goods), while traditional grocery stores cannot offer a wide assortment of products at low prices. Supermarkets are not completely driving out open-air wholesale markets and Soviet-type grocery stores, but forcing them to modernize equipment and marketing techniques.

Supermarkets, Hypermarkets

Owners privatized the majority of retail outlets during the first wave of Ukrainian privatization in the early 1990's. Large trade centers with a self-service system (the Soviet counterpart to supermarkets) built in the time of the Soviet Union ceased to exist after the first year of Ukraine's independence. Later, individuals or businesses purchased these food stores. In order to survive, the overwhelming majority of these stores sold both non-food and food products.

The stabilization of the national economy helped to create the current retail structure. The first domestic supermarket chains emerged to satisfy the new and growing demand in early 2000s. These stores began to emulate western standards on floor space, product assortment, and quality of service.

The average floor space of a Ukrainian supermarket grew from 822 square meters in 2005 to 914 square meters in 2007 and 1200 square meters in 2009. The first Ukrainian mall – "Karavan" (is still classified as hypermarket by the State Statistics Service) was built in Ukraine in 2004 with a total area of 13,000 square meters and total floor space of 8,000 square meters. The small floor space of many Ukrainian supermarkets is a result of limited capital and limited availability of buildings or land plots in proper locations suitable for such operations. Only Western investors and very few Ukrainian companies are capable of full-scale construction projects from the ground up.

According to supermarket owners, stock lists of smaller stores include 30–70,000 items, with 80-90 percent of these items of Ukrainian origin. Dairy and fish products, meat, bakery and

spirits are widely represented. Supermarkets often cut their margins to attract as many customers as possible. The largest chain supermarkets use over 1,000 different suppliers represented by large wholesale companies, producers and importers. Local chains are adopting foreign practices and standards, and introducing production quality control departments and distribution centers. Many supermarkets are open around-the-clock.

There are several factors contributing to the rapid success of hypermarkets and supermarkets in Ukraine. First, retail chains guarantee higher quality goods. Second, the majority of chains offer attractive prices through improved logistics and substantial supplier discounts in return for guaranteed large procurements. These advantages attract customers from traditional wholesale open-air markets and grocery stores. Third, supermarkets guarantee comfortable shopping conditions (free parking, etc.), additional discounts for regular customers (discount cards), and additional services for goods purchased (home deliveries, internet shopping, etc.).

Due to the rapid market development and abundance of retail formats, local retail chains have had little competition from foreign companies. Today, Kyiv commands approximately one-fifth of all retail trade in food products conducted by specialized and non-specialized stores, as reported by official statistics. Meanwhile, according to some retailers these supermarket chains are only satisfying 45-50 percent of all demand. Operators agree that the market for larger stores will continue to develop in the near-term despite the economic slow-down. Now supermarkets do not compete with each other, but with traditional open-air markets. The latest trend in supermarket development is to locate these trade outlets in shopping malls, which reduces construction costs and attracts additional customers. Construction of movie theaters also opens new possibilities for supplying the "American way of life" (popcorn, soft drinks and different snacks).

Important Note: Since most retailers in Ukraine are not publicly traded companies and do not publish information about their turnover, FAS-Kyiv decided to follow practice common for Ukrainian analytics and business press when chain's rating is based on area of the outlets in operation. Besides Ukrainian retailers often operate multiple chains (conventional supermarkets and small "near home" stores) reflected in the different table. This makes turnover estimation for particular type of outlet nearly impossible.

Table 2. Hypermarkets and Supermarkets Chains in Ukraine (Rating from Bigger to smaller chains)*

Retailer Name and Outlet Type	Ownership (Turnover)	Total Sores' Area, 1000 m2	No. of outlets as of 2012	Locations	Purchasing Agent Type
Sil'po supermarket	Fozzy Group (\$2.6 billion in 2011)	362.2	206	Nation -wide	Direct/importer
Fozzy, C&C			5	Nation -wide	
Metro, C&C	Metro Cash and Carry ("Metro AG"	227.0	27	Nation-wide	Direct/importer
Metro Basa			4		
Real**			~19.0		

	Germany)				
Furshet, Furshet Gurman Narodnyi	Furshet LLC	184.3	117	Nation-wide, Moldova, Georgia	Direct/importer
Velyka Kishenya, Velyka Kishenya Select, Prosto Market, Welmart, №1,	Retail Group Holding	113.2	43	Nation-wide (17 regions)	Direct/importer
Tavriya-V, Kosmos	Tavriya-V LLC	105.0	34	Southern/Central Ukraine, Kyiv	Wholesaler/Direct/importer
Auchan	Hypermarket Auchan Ukraina	85.0	8	Nation-wide	Direct/importer
ECO-Market supermarket	Bayadera Ltd.	81.7	82	Nation Wide	wholesaler/direct/importer
Amstor	Midland Resources Holding Ltd	81.1	24	Eastern Ukraine	Direct/importer
Fresh, Arsen, Sojuz	Eurotech Ltd.	55.6	7	Western Ukraine	wholesaler/direct
PAKKO, supermarkets	Pakko Corp.	n/a	87+10	Western Ukraine	Direct/importer
Vopak, C&C					
Nash Kraj	Own stores of VolWest Group and Franchisees	n/a	65	Nation Wide	Direct/importer
Novus	BT Invest (Lithuania)	n/a	20	Central, Southern and Western	Direct/importer/wholesaler
Spar	Franchisees	28.4	36	Kyiv and Eastern Ukraine	Direct/importer/wholesaler
Colibris, Nash, 555	Avanta TD	n/a	52	Western Ukraine	Direct/importer
Varus	Omega Ltd.	42	31	Central-Eastern Ukraine	Direct/importer
Target, Simeina Kramnytsia Target	Target Trade Gropup	n/a	8	Kharkiv	Direct
Mega-Market, supermarket	Founder - Victor Yushkovskiy	n/a	6	Kyiv	Direct/importer
Perekrestok-Ukraine	X5 Retail Group (Russia)	n/a	8	Central Ukraine	Direct/importer/wholesaler
Natalka-Market, supermarket	"Natalka-Market" CJSC	n/a	6	Odessa, Mykolaiv	wholesaler/direct/importer

*Sources: Company information, expert estimates, FAS/Kyiv estimates

**Likely to be sold to Auchan Group and rebranded.

Kiosks and Gas Marts

The number of kiosks, which were popular trade outlets in the early 1990's, has gradually diminished. The typical kiosk operates 24 hours a day and sells cheap alcohol, cigarettes and a limited number of food products. Limited floor space (usually 8-25 square meters) and a relatively wide stock list (on the order of 100-200 kinds of goods), as well as minimal required capital and operation costs ensures their existence. Competition from larger private stores and supermarkets that offered lower prices resulted in a reduction in the number of kiosks. They survive at road intersections, bus stops, underground stations, near open-air markets, in bedroom communities, and in rural areas. Kiosks offer a variety of the cheapest living essentials including food products. Lately, kiosks are becoming more specialized. For example, producers of meat and bakery products have opened kiosks to sell their own products near public transportation stops.

The number of modern gas stations continues to grow rapidly in Ukraine. Approximately 10-15 percent of all Ukrainian gas stations have stores that sell packaged food products. This includes mainly soft drinks, cookies, chocolates, and various snacks. These gas station stores account for 1-2 percent of all food stores. The service-store network is under development and is not viewed as a major revenue source by gas station managers. The developing network has good prospects and may increase its share of retail sales.

Table 3. Kiosks and Gas Stations in Ukraine (ths.)

	2004	2005	2006	2007	2008	2011	2012
Number of kiosks (stalls)	20.2	19.4	18.9	19.6	19.7	9.8	8.9
Share of kiosks in convenience goods market, percent	5	3	2	2	3	1	1
Number of gas stations	5.2	5.5	5.9	6.3	-	6.9	7.0

Source: State Statistics Service of Ukraine

Chain Convenience Stores and Self-service Groceries

Chain grocery stores are not yet very common in Ukraine, although becoming more so. The shortage of suitable land plots makes many retailers consider smaller formats. The Fozzy Group is developing a network of Fora and Bumi-market grocery stores. According to management, the chain may slow down development of its Silpo supermarkets chain, but will not cut back on its Fora chain despite economic downturn. The Rainford group also has a network of 32 "convenience stores." Their competitor in the Dnipropetrovsk region, ATB Corporation, has a network of 372 stores, although these stores are quite close to supermarkets in size. Usually groceries are located in suburbs, offer a narrow product range

and have limited floor space. These new groceries are quickly replacing the Soviet-style food stores. The average floor space varies from 300 to 500 square meters. Stock lists include an average of 1,500 to 3,500 items. Although recently many prefer to keep an expanded assortment up to 5000 SKUs. Grocery outlets have become rather popular among pension-age consumers who prefer to shop close to home. Retirees often make small purchases throughout the week. These outlets also target consumers with below average incomes and who generally purchase goods daily. These products tend to have a short shelf life (bread, dairy products, fruits and vegetables, etc.). Market analysts note that convenience stores lack regular customers and their market share is small. Nevertheless, grocery stores are very successful in small Ukrainian towns.

Table 4. The Largest Convenience Store Chains in Ukraine*

Chain Name	Owner/managing company	Type of the company	Trade outlet type	Number of outlets	Location
ATB (Discounter)	Corporation ATB (Ukraine) Floor Space: 280,500 m2	Direct/wholesaler/importer	Convenience store	650	The Biggest Nation-wide Chain
Fora, Bumi	Fozzy Group (Ukraine)	Direct / importer	Grocery / Discounter	147	Nation-wide (5 regions)
Brusnychka	Ukrainian Retail	Direct / importer	Grocery / convenience	102	wholesaler/direct/importer
Kvartal, Fresh-Market	Eurotec LLC	Direct / importer	Grocery / convenience	14	Northern and Central
SPAR Express	Spar Ukraine LLC.	Wholesaler / importer	Grocery / Convenience store	32	Eastern and Central Ukraine
Econom+	TK Econom Plus LLC.	Direct / importer	Convenience store	30	Zaporizhia
Absolute Express	PKF Lia LLC.	Wholesaler/Direct	Convenience store	31	Eastern Ukraine
Barvinok	Abris Capital Partners (Poland)	Wholesaler/direct/importer	Grocery	47	Western Ukraine
Bi Market	Bimarket LLC.		Convenience Store	16	Kyiv, Irpen
Rukavychka	TVK Lvivholod	Direct / importer	Self-service Grocery	50	Western Ukraine
Plus	RBB Group LLC.	Direct / importer	Convenience Store	41	Central Ukraine
Mars	Trade House Mars	Wholesaler/direct/importer	Grocery	10	Eastern Ukraine
Natalka Market	Natalka Trade	Wholesaler/direct/importer	Grocery	13	South Ukraine
Obzhora	Obzhora Chain	Wholesaler/importer	Grocery	15	Odessa Region
Kopeyka	Vit Almi LLC	Wholesaler/importer	Convenience store	29	Odessa Region

* Some chains can operate conventional supermarkets

Sources: Company information, open press, FAS Estimates;

Traditional Outlets: Independent Grocery Stores and Open-Air Markets

Soviet-style stores with behind-the-counter sales (traditional groceries) are quite common in Ukraine. Some of these groceries are situated in central districts selling food products to office employees during the workweek and to a small number of urbanites. These stores have often been taken over by chain convenience store companies and converted into modern self-service convenience stores. Other traditional grocery stores survived in suburban communities in large cities. These stores are likely to leave the market due to fierce competition with supermarkets and modern convenience stores. They are losing clientele due to their limited product line, higher prices, poor customer service, and unprofessional vendors. In order to survive, many offer round-the-clock operations and lease some floor space to sellers of industrial goods (DVD and CD sales) and services (photo development). Some are operating successfully in distant small districts of large cities and small provincial towns where the construction of supermarkets or modern chain convenience stores is economically unjustified.

Grocery stores, especially those operating 24 hours a day, can be of certain interest to potential U.S. exporters. These outlets may become outlets for less expensive food products, manufactured abroad with a long shelf life: alcohol drinks, assorted snacks, confectionery products, meat goods, canned goods, goods for elderly people. The overwhelming majority of these stores (except small ones with 150-200 square meter floor space) procure products through wholesale companies. Smaller ones buy products in Cash & Carry stores or from large wholesale open-air markets.

As reported by the State Statistics Service of Ukraine, there were 2,785 open-air markets (bazaars) of all types in Ukraine in 2009, including almost 500 food product open-air markets. Twenty five food open-air markets are located in Kyiv. At the same time, mixed open-air markets (rynoks) trading in both foodstuffs and non-food goods prevail in Ukraine and account for approximately 55 percent of the total number of markets of all types in Ukraine. The largest number of food product open-air markets in Ukraine are concentrated in the most populated regions. Typical Ukrainian open-air markets would include a space for farmers, while behind-the-counter kiosks sell packed and processed products. The open-air market kiosks zone would trade in low and middle cost products. Many people think that food products in traditional open-air markets are cheaper than in supermarkets. Elderly consumers are also confident in the high quality of products offered at these wholesale open-air markets.

According to experts' estimates, in 2009, approximately 20 percent of food products in Ukraine were sold through this channel. For meat products this indicator reached 90 percent. These trade outlets are leading sellers of vegetables, fruits, meat, honey and dried fruits. At the same time, sales of dairy products, sunflower oil, and alcoholic drinks are gradually moving from open-air markets to outlets of other types. Open-air markets provide

poor customer service, lack storage equipment and often sell low quality products for a price that is often higher than in supermarkets.

Improvement of service standards in open-air markets would lead to a marginal increase in competitiveness, but long-term prospects are still not very promising. Some renovated central open-air markets for food products in large cities were transformed into traditional elite supermarkets offering high-quality products. Bessarabskiy and Volodymyrskiy bazaars in Kyiv are good examples. These open-air markets located in the historical part of the city serve as shopping destinations for foreigners living in Kyiv and the Ukrainian elite. This category of markets can be interesting for American exporters of specialty meat products, seafood, semi-finished goods, microwaveable foods, mixtures of exotic dried fruits, nuts, confectionery goods, alcohol drinks, and traditional U.S. consumer food products, which ordinary supermarkets find inconvenient to stock due to low demand.

Table 5. Number of Markets (bazaars) Offering Consumer Goods in Ukraine

Year (As of January 1st)	Number of Open-Air Markets	Number of stalls	Specialization			Area, 1000 sq. m.	
			Food	Nonfood	Mixed	Total	Trade
2006	2886	931379	502	719	1665	21058	14553
2007	2890	927016	498	736	1656	21150	14698
2008	2834	909498	477	712	1645	21204	14757
2009	2785	904917	425	705	1655	21164	14554
2010	2761	893572	398	689	1674	21674	14262
2011	2758	886299	407	699	1652	21471	13764
2012	2698	878987	290	667	1641	21318	13546

Source: State Statistics Service of Ukraine

It is quite likely that the number of traditional groceries, kiosks, and bazaars will decrease in the future, while the number of hypermarkets, supermarkets and self-service convenience stores would grow. Open-air markets together with "vegetable-fruit" stalls will compete strongly with modern stores in retail sales of fruits and vegetables. The number of kiosks will likely also diminish.

MARKET TRENDS

Private Label

Over the last two years all nation-wide retail chains developed their own private-label programs. In most cases chains offer cheap and mid-price products in fruit juice, canned vegetables, dry fruits, grocery, frozen dumplings, and seafood product groups. Many chains sell products produced on their own premises (mostly frozen products) that are not clearly labeled as the supermarket's private label or sold as no-name white label products. Own ready-to-eat products produced on sites are also not "private-labeled".

Most chains sell only food private labels. In 2008 Metro C&C Ukraine also launched its "H-Line" label with over 60 food and non-food items. By 2011 the PL line includes ARO, Horeca

Select, Fine Food, Rioba. Silpo Chain has offered some non-food items under "Premia," "Premia-Select" and "Povna Chasha" private label. Own PL are also launched by major chains: Furshet, ATB, EcoMarket and Velyka Lyshenia. The price difference compared to branded competitors is five percent - 20 percent less.

Retailers see having a private label as a means to exclude of third party distributors from the logistics chain as well as a means to minimize promotion costs. Some cost is also saved during the bidding process when a supplier is chosen. It is too early to estimate the success of private-label programs in Ukraine since they are relatively new and coincide with significant changes in loyalty programs run by many big chains. Common for the western markets reliance on grocery items for private-label program is not evident in Ukraine. Private label bundles are quite diverse and do not coincide from chain to chain.

Modern Trade Promotion Methods

Chain stores regularly train their personnel and experiment with product layout, in order to maximize profits from one square meter of floor space. Many supplier companies have their own display schemes, for example, "Hipp GmbH" infant food producer. In-store new product tasting and promotion campaigns are also quite frequent.

Many supermarkets are equipped with television screens for demonstrating commercials promoting goods and services. Traditional poster and panel advertisements are also popular. The largest supermarkets issue their own advertising booklets and discount coupons. They also practice direct-mail distribution of these booklets to potential customers and publish advertisements devoted to products or one specific country. In particular, one such edition published by Furshet was devoted to products of German origin. These methods can be applied to U.S. product advertisement.

Loyalty programs dedicated to specific brands were launched in 2006. The goal of these programs is to create long-term brand loyalty. Producers attempt to reduce marketing costs by developing marketing campaigns that represent more than one company. The main incentive tool used by program members is targeted coupons.

Digital technologies, such as mobile marketing, are widely used for Sales Promotion purposes. Scratch cards enable producers to link promotions with retail outlets. There are a number of in-store marketing technologies, which were purchased from the United States in 2006. Among them are in-store couponing (operated by Coupon Management System company from the Prospects Group) and on-floor stickers (operated by Floorgrafics, U.S.). Different refunds and rebate schemes have been tested by Prospects Company over the past three years.

Market Power

In the early days of the Ukrainian retail (2000 – 2002) sector, producers of food and agricultural products could dictate to supermarkets terms for positioning, marketing and

payments of goods. Food products were viewed as anchor commodities attracting consumers to new supermarkets. The situation changed rapidly in 2004-2007, when retail chains acquired a significant market share in larger cities, attracting middle and high-income consumers. Retailers quickly realized that control over targeted consumers gave them control over producers. Producers of hard liquors, vodka and dairy products publicized these new problems, while many other supplies preferred to keep these issues quiet. Most problems were related to retailer recommended prices and price discounts some to product placement and associated fees. The threshold used to introduce products in Ukrainian supermarkets remains quite low if compared to Western chains, but it seems excessively high to many Ukrainian producers.

SECTION III. COMPETITION

The Government of Ukraine took a number of steps to protect domestic producers of food products in the mid-1990s. This resulted in high import tariffs and a complicated system of sanitary and phytosanitary requirements. The economic crisis of 1998 abruptly decreased individual incomes and drove consumers to purchase cheaper domestically produced products. All of these factors contributed to the robust development of the domestic food-products industry. Production of dairy and meat products (sausages, smoked foods), soft drinks, mineral water, juices, beer, confectionery, various appetizers, and chilled chicken meat is still on the increase. Introduction of high import duties made legal imports of many foreign food products unprofitable, while the Ukrainian market remained open to food products originating in Russia and other CIS countries. The Free Trade Agreement among CIS countries facilitated trade. Russian-made products were charged only the value-added tax, which make their price comparable to similar Ukrainian products. Many imports from the EU and the United States cannot compete on price with CIS goods.

Main Delivery Sources and Volumes of Specific Product Imports to Ukraine

Product Category	Major Supply Sources in 2011 and their share*	Strengths of Major Supplying Countries	Advantages and Disadvantages of Local Suppliers
Pork Net Imports: 113 ths. tons US Supplies: 7,000 tons	1. Brazil 35 percent 2. Poland 29 percent 3. Germany 15 percent	Much lower prices, stable quality	Highly inefficient pork production in private households and in majority of industrial farms; Some production rebound in 2006 based on renewed technologies.
Almonds Net imports: 1.6 TMT US Supplies: \$ 5.8 mil (CIF)	1. U.S. – 99	U.S. product dominates this market. Competition is almost absent.	There is no local production, although there is a demand from snack and confectionary industries.
Tree	1. U.S. – 22	U.S. competitors supply	There is no nut

<p>Nuts Net imports: 8.8 TMT</p> <p>US Supplies: \$ 8.8 mil (CIF)</p>	<p>2. Iran - 15 3. Turkey - 14 4. Georgia - 13</p>	<p>hazelnuts, pistachio, and walnuts, leaving almonds to U.S. suppliers. Most competitors are located in close proximity to Ukraine (mostly the Black sea region) and offer good deals for price cautious Ukrainian buyers.</p>	<p>production in Ukraine. Some walnuts come to the market from natural forests and household sector.</p>
<p>Fish and fish products Net imports: 390 TMT</p> <p>US Supplies: \$ 47mil (CIF)</p>	<p>1. U.S. - 7 2. Norway - 32 3. Estonia - 7 4. Iceland - 10 5. Canada - 5 6. Russia - 5</p>	<p>U.S. share of Ukrainian market is quickly growing while share of traditional exporters (Estonia and CIS countries) is shrinking. Norway promotes its products very aggressively, investing in processing and cold storage. The Russian share is stable and surprisingly low.</p>	<p>Local production is limited mainly by fresh water fish and Black sea basin fish. Atlantic fish quotas for Ukraine are small. Popular fish species are not supplied by local fishermen and have to be imported.</p>
<p>Pet food Net Imports: 133 ths. tons</p> <p>US Supplies: 6,000 tons</p>	<p>1. Poland 28 2. Hungary 21 3. Russia 14</p>	<p>Exports of well-known pet food trademarks from Russia dominate in low segment. U.S. brands are perceived as high quality ones</p>	<p>Traditionally high number of home pets, large market potential; low demand for industrially produced pet food</p>
<p>Wine and Beer Net Imports: 59 million liters</p> <p>US Supplies: 33,000 liters</p>	<p>1. Moldova 34 2. Russia 22 3. Georgia 10</p>	<p>CIS origin wine is reasonably priced and has traditional brands. Western Wines are occupy the upper segment and perceived as high quality ones</p>	<p>Steady demand for locally produced wines; production experience; broad assortment and low prices; poor positioning of high quality vintage wines; traditional preference to sweetened wines</p>
<p>Snack food Net Imports: 50 ths. tons</p> <p>US Supplies: 1,000 tons</p>	<p>1. Poland 71 2. Russia 9</p>	<p>Countries of South America, Spain, Georgia, and Azerbaijan supply citrus fruits at right price/quality ratio</p>	<p>Essential volume of smuggling especially from Poland and the CIS states as well as lack of storage facilities; low cost of local production</p>

Sources: State Statistics Service of Ukraine, expert estimates

SECTION IV. BEST PRODUCT PROSPECTS

Category A: Products Present on the Market With Good Sales Potential

Product	2011 Market volume	2011 Import volume	Average growth of import over the last 3 years	Import taxes	Main factors hindering import development	Attractiveness of the market for the USA
Beef	408 ths. tons	8 ths. tons	No change	15 percent	Consumer unawareness of U.S. high quality beef; Sizable domestic production, Complicated import procedures.	Insignificant specialized beef production; Constantly growing beef prices; Niche markets for meat delicacies (steak, etc.) and meat offal; Fast HRI development.
Pork	821 ths. tons	119 ths. tons	12 percent Decline	10-12 percent	Competition from Brazilian, German and Polish pork, complicated import procedures.	Shortage of pork in the country; declining production; high prices; Demand for stable deliveries of both cheap and high quality product.
Fish and Seafood	~570 ths. tons	390 ths. Tons	10-20 percent	0 – 5 percent for all frozen fish; 10 percent for prepared fish, live fish, Mackerel, Trout, some Crustaceans, Anchovy, Salmon and Lobsters.	Regular deliveries of high quality product from Norway; Shortage of suitable equipment at retail trade outlets; Deficit of proper storage facilities with below -20C temperature.	Growing demand for higher quality seafood from consumers; Significant demand from supermarkets and HRI sector.
Dried fruits	50 ths. tons	10.6 ths. tons	30 percent	From 0 percent to 20 percent	Sharp competition with CIS countries and Turkey. Desire of packers to save	Intensive development of confectionery industry and start of retail sales of

					on raw stock, procuring low quality stock from Iran, Uzbekistan and Tajikistan	rare dried fruits. High quality of U.S. product; Development of premium-class confectionery products
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* All imported products are subject to 20 percent VAT tax.

Category B: Products Not Present in Large Quantities but with Good Sales Potential

- Premium-class food products: meat specialties (meat for further cooking – steaks, fillet, etc.), smoked meat, cheese;
- Exotic seafood, ready-made high-quality canned fish;
- Cereals: muesli, instant porridge, ready-made rice, different sorts of ready-made packed rice;
- Food for diabetics;
- Specialized infant food, canned vegetables and infant fruit food;
- Exotic drinks/juices (from exotic fruits, energy drinks, vitamin drinks, root beer), drink concentrate, traditional drinks with different additives (tea/hot chocolate with additives);
- Semi-prepared goods, ready-made frozen food, microwaveable food;
- Packed food ingredients of high quality for cooking (brown sugar, sugar powder, high-quality spices, etc.)
- High-quality beer snacks (a rapid increase in beer consumption over the last several years and stable forecasts regarding beer consumption growth in the future).
- The future aging of the population creates a niche market for this category of costumers. The low current incomes of this category make this market profitable only in the future.

Category C: Products Not Present Because They Face Significant Barriers (with barriers indicated)

- Any food product that has a genetically modified component in it (unclear and incomplete legislative framework for registration of GM products). Labeling of such was introduced at the end of 2009 and implemented in 2010.
- Ready-to-eat meat products (smoked meat, sausages, hotdogs) – high competition of similar Ukrainian products, significant veterinary clearance barriers.
- Inexpensive imported chocolates – high competition from similar Ukrainian products;

SECTION V. ATTACHMENTS

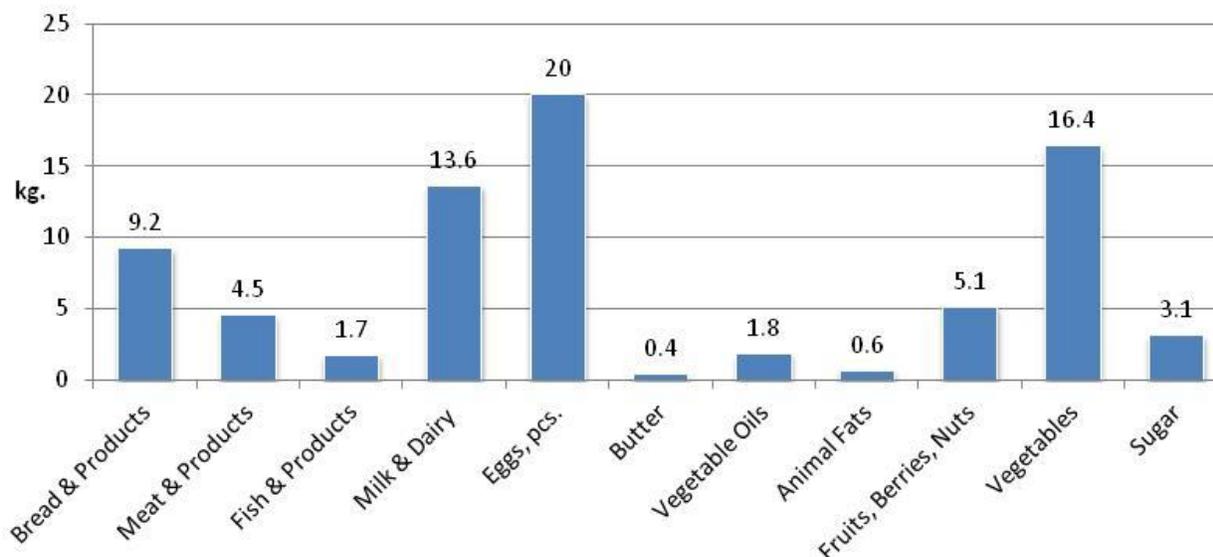
Annual Foodstuffs Sales in Retail Trade (1000 Tones)

	2005	2006	2007	2008	2009	2010
Meat and products	325	389	443	453	420	452
Butter	32	35	36	36	31	31
Vegetable oil	66	77	91	102	109	122
Cheese and soft cheese	42	51	63	71	67	67
Eggs, million	1341	1649	1791	2194	1986	2233
Sugar	129	130	155	177	190	143

Conditerey	225	252	275	288	254	268
Tea	7	9	12	13	12	11
Bear and products (in wheat flour equivalent)	953	952	948	933	845	807
Potato	78	76	91	101	99	93
Vegetables	151	183	205	210	247	253
Fruits and berries and nuts	148	203	230	237	254	332

Source: State Statistics Service of Ukraine

Per capita Food Consumption (in 2011)



Source: State Statistics Service of Ukraine

Sales of Major Food Product Through the Retail Sector in 2009-10

Food Product	Volume	Sales			2011 % to 2010
		2009	2010	2011	
Meat, poultry and fresh frozen	1000 T	716	805	895	111
Meat, smoked and salted meats	"	734	827	951	115
Canned, prepared meat products	"	105	114	140	123
including semi-finished meat	"	8	6	4	74
Fish and seafood	"	339	409	463	113
Canned, ready to eat fish products	"	140	161	194	121
including semi-finished	"	521	675	770	114
Icecream	"	72	94	118	125
Hard cheese, foft and melted cheese	"	324	403	491	122
Butter	"	135	176	213	121
Eggs and egg products	Million pcs.	144	165	196	118
Oils and Fats	1000 T	152	183	250	137
Margarine	"	47	42	43	102
Sugar	"	124	154	172	112
Confectionery sugar	"	852	1049	1274	121
Flour	"	67	67	80	118
Bakery products (except confectionery)	"	338	373	438	117

Groats and Beans	"	131	167	208	124
Noodles	"	126	131	166	127
Potatoes	"	59	68	88	130
Vegetable	"	204	277	355	128
Fruits, berries, grapes, nuts	"	335	450	569	127
Watermelons and Melons	"	135	142	163	115
Canned vegetables	"	42	44	51	117
Canned fruit and juice	"	2213	2459	2929	119
	1000				
Vodka and other spirits products	decalitres	852	955	1170	122
Alcopops	decalitres	101	108	128	119
Wines	"	385	402	448	111
Brandy	"	236	272	334	123
Sparkling wine (champagne)	"	151	162	188	116
Beer	"	487	560	661	118
Tea	1000 tones	142	162	184	113
Coffee	"	211	255	314	123
Sault	"	10	9	11	118
Soft drinks	decalitres	393	424	472	111
Mineral water	"	192	228	259	114
Tobacco	million pcs	1205	1551	2192	141
Other food Products		608	716	976	136
Total Food Products		11863	13983	17049	122
Food Products in Stores and Supermarkets		10823	12784	15627	122

Source: State Statistics Service of Ukraine

Ukraine's Imports of Consumer Oriented Agric. (January - September), Million USD

Commodity	Description	United States Dollars			% Share			% Change 2012/2011
		2010	2011	2012	2010	2011	2012	
	Total	1,933	2,176	2,813	100	100	100	29.3
020329	Meat Of Swine, Nesoi, Frozen	92	90	224	4.8	4.1	8.0	149.4
080300	Bananas And Plantains, Fresh Or Dried	116	110	204	6.0	5.1	7.3	85.9
210690	Food Preparations Nesoi	127	166	182	6.6	7.6	6.5	9.9
210111	Coffee Extracts, Essences Etc. & Prep There from	126	176	164	6.5	8.1	5.8	-6.7
020714	Chicken Cuts And Edible Offal (Inc Livers), Frozen	128	33	100	6.6	1.5	3.5	205.5
230910	Dog And Cat Food, Put Up For Retail Sale	57	67	74	3.0	3.1	2.7	11.4
080930	Peaches, Including Nectarines, Fresh	38	30	73	2.0	1.4	2.6	145.1
090121	Coffee, Roasted, Not Decaffeinated	41	76	73	2.1	3.5	2.6	-3.5
080510	Oranges, Fresh	71	63	71	3.7	2.9	2.5	12.6
080810	Apples, Fresh	70	26	58	3.6	1.2	2.1	124.5
070200	Tomatoes, Fresh Or Chilled	35	39	58	1.8	1.8	2.1	49.4
220421	Wine, Fr Grape Nesoi & Gr Must W Alc, Nov 2 Liters	33	51	55	1.7	2.3	2.0	9.2
020311	Carcasses & Half-Carcasses Of Swine Fresh, Chilled	21	13	53	1.1	0.6	1.9	312.5
180690	Cocoa Preparations, Not In Bulk Form, Nesoi	36	49	51	1.8	2.3	1.8	2.3
080520	Mandarins (Inc Tanger Etc) & Citrus Hybr Fr Or Dri	35	56	50	1.8	2.6	1.8	-11.2

210390	Sauces Etc. Mixed Condiments And Seasonings Nesoi	39	48	48	2.0	2.2	1.7	-0.3
080550	Lemons And Limes, Fresh Or Dried	33	30	45	1.7	1.4	1.6	51.5
180631	Chocolate & Othr Cocoa Preps, Not Bulk, Filled	36	55	42	1.9	2.5	1.5	-23.4
200819	Nuts (Exc Peanuts) And Seeds, Prepared Etc. Nesoi	22	33	40	1.1	1.5	1.4	24.0
170490	Sugar Confection (Incl Wh Choc), No Cocoa, Nesoi	20	37	39	1.0	1.7	1.4	7.1
080610	Grapes, Fresh	27	17	38	1.4	0.8	1.3	121.5
020321	Carcasses And Half-Carcasses Of Swine, Frozen	30	7	38	1.5	0.3	1.3	405.9
040690	Cheese, Nesoi, Including Cheddar And Colby	12	20	33	0.6	0.9	1.2	62.8
060290	Live Plants, Cuttings & Slips, Nesoi; Mushroom Spawn	18	23	32	1.0	1.1	1.1	37.6
	Other not listed	671	863	967	34.7	39.6	34.4	-13.3

Source: State Statistics Service of Ukraine

Ukraine's Imports of Consumer Oriented Agricultural Products from the U.S. (January - September), Million USD

Commodity	Description	United States Dollars			% Share			% Change 2012/2011
		2010	2011	2012	2010	2011	2012	
	Total	136	54	102	100	100	100	86.6
020714	Chicken Cuts And Edible Offal (Inc Livers), Frozen	90	4	38	66.1	7.0	37.8	908.5
210690	Food Preparations Nesoi	9	10	15	6.6	19.2	14.6	41.6
040700	Birds' Eggs, In The Shell, Fresh, Preserv Or Cookd	8	9	11	5.6	15.8	10.5	23.7
080211	Almonds, Fresh Or Dried, In Shell	2	4	7	1.3	7.7	7.3	76.6
040210	Mlk & Crm, Cntd, Swt, Powdr, Gran/Solids, Nov 1.5% Fat	0	0	7	0.0	0.7	7.0	1879.9
350510	Dextrins And Other Modified Starches	4	6	6	3.3	10.4	5.8	3.9
080212	Almonds, Fresh Or Dried, Shelled	2	1	2	1.5	2.2	1.7	42.3
020329	Meat Of Swine, Nesoi, Frozen	9	2	2	6.7	4.3	1.6	-31.1
080620	Grapes, Dried (Including Raisins)	1	2	2	0.4	3.8	1.5	-23.9
230910	Dog And Cat Food, Put Up For Retail Sale	2	2	1	1.4	2.9	1.5	-7.1
020322	Meat, Swine, Hams, Shoulders Etc, Bone In, Frozen	2	1	1	1.7	2.5	1.4	8.3
020622	Livers Of Bovine Animals, Edible, Frozen	2	2	1	1.6	2.8	1.3	-12.5
071290	Vegetables Nesoi & Mixtures, Dried, No Furth Prep	1	1	1	0.4	1.2	1.0	50.5
080250	Pistachios, Fresh Or Dried, Shelled Or Not	0	1	1	0.2	1.9	0.7	-34.3
200819	Nuts (Exc Peanuts) And Seeds, Prepared Etc. Nesoi	0	0	1	0.1	0.6	0.6	110.8
020727	Turkey Cuts And Edible Offal (Includ	0	0	1	0.1	0.1	0.6	745.1

	Liver) Frozen							
200899	Fruit & Edible Plant Parts Nesoi, Prep Etc. Nesoi	0	1	0	0.1	1.4	0.4	-43.1
020130	Meat Of Bovine Animals, Boneless, Fresh Or Chilled	0	0	0	0.1	0.4	0.4	93.1
	Other no Listed	4	8	4	2.7	15.2	4.3	-71.4

Source: State Statistics Service of Ukraine